

**DEFENSE-WIDE WORKING CAPITAL FUND  
FY 2000/2001 BIENNIAL BUDGET ESTIMATES  
FEBRUARY 1999  
DEFENSE LOGISTICS AGENCY  
DEFENSE REUTILIZATION AND MARKETING SERVICE**

**FUNCTIONAL DESCRIPTION**

The primary mission of the Defense Reutilization and Marketing Service (DRMS) activity group is the reuse, or reutilization, of excess and surplus property within the Department of Defense (DoD). DoD inventory managers submit requirements to DRMS via automated requisitions using standard requisition and issue procedures. Items received by the Defense Reutilization and Marketing Offices (DRMOs) and meeting Military Services' (MILSVCs') item manager criteria are automatically referred through front-end screening notices. The MILSVCs reutilized approximately \$3.6 billion worth of personal property in FY 1998, resulting in savings to the DoD and the Government. If property is not reutilized, it can be transferred to other Federal agencies. Remaining property becomes surplus and is made available for donation to authorized state agencies and charitable organizations. The balance of property is offered for competitive sale to the public.

DRMS also has the mission of hazardous property disposition. In this capacity, they handle the vast majority of DoD property governed by the Resource Conservation Recovery Act (RCRA) of 1976, as amended. Some hazardous material has reutilization and/or sales value and goes through the same procedure as all other DoD property. Almost all hazardous waste is directly disposed of through contracts managed by DRMS and funded by the MILSVCs.

DRMS headquarters, responsible for operational control, is located in Battle Creek, Michigan. The operational core of this organization lies with individual DRMOs located on military installations throughout the world. DRMOs receive, classify, segregate, demilitarize, account for and report excess material for screening, lotting, merchandising, and sales.

## **CHANGES IN OPERATIONS**

DRMS is undergoing a significant business evolution into a knowledge-based organization that moves property through information management rather than physically handling property. DRMS has a commitment to continue providing world-class service during this transformation. Resources will continue to be dedicated in support of the MILSVCs to providing the highest possible returns to the DoD and the Government.

DRMS has deployed the Recycling Control Point (RCP) program to 9 of its 13 wholesale sites. Plans to expand deployment to retail sites are in early stages of discussion/planning. This is a major milestone in the transition to moving information not property. To minimize property handling, the RCP automates the screening and sales processes via the DRMS Internet World Wide Web site, and offers reduced labor requirements for current manual receipt, warehousing, and data entry functions associated with physically handling the property at DRMOs.

In addition, DRMS will continue expansion of automation enhancements to support the Reutilization/Transfer/Donation (R/T/D) process. This is an integral part of DRMS's vision of becoming an information broker. More effective automation will make the R/T/D process more efficient and customer-friendly. It will also ensure that all R/T/D customers, regardless of geographic location, will get an equal opportunity to access excess property. Eventually, this may include shifting the cost of transportation for the reutilization program back to the MILSVCs.

DRMS application of automated technology will support internal DRMS operations by eliminating duplicative and repetitive data entry and providing accurate and current management data. Technology will support DRMS customers by providing on-line information to include pictures as well as expanded narrative descriptions of property, catalogs and asset interrogation capabilities. DRMS is integrating systems requirements and ensuring they are in consonance with the vision of moving information, not property in the DRMS Automated Information System (DAISY). While maintaining accountability and integrity of DRMS disposal assets, DAISY has shifted from a transactional to a process oriented system.

In FY 1999, DRMS expanded the Commercial Venture (formerly known as Joint Venture) initiative to new supply classes. The Commercial Venture initiative will partner DRMS with a contractor having commercial expertise in selling while maintaining the utility functions of management oversight that are inherently part of the DRMS mission. This is a proceeds- and risk-sharing initiative that will encourage the contractor to minimize costs while aiming to maximize proceeds. In FY 2000, DRMS will also enter into the first A-76 competition, which will compete the logistics process at 10 DRMOs in the Northeastern United States. DRMS continues to be a center of excellence for environmental management and compliance.

The above initiatives will allow DRMS to complete implementation of significant infrastructure reductions. These reductions are in line with the Quadrennial Defense Review (QDR) infrastructure and outsourcing initiatives that will streamline operations and develop partnerships with industry.

## **BUDGET HIGHLIGHTS**

### DRMS AND THE DEFENSE NATIONAL STOCKPILE CENTER

DRMS and the Defense National Stockpile Center (DNSC) perform similar missions, disposal of excess supplies and materials. An effort is underway to financially combine the two organizations. In the FY 2000/2001 Biennial Budget Request there is Congressional language that would allow DNSC to transfer revenue generated from sales, to the Defense Working Capital Fund to supplement the cost of operations of the DRMS.

### UNIT COST/PERFORMANCE INDICATORS:

In FY 1998, DRMS restructured its unit cost goals from two non-process based goals to four major work process goals. Unit cost, as a performance indicator, helps managers make more informed resource allocation decisions. It encourages managers to focus on not only the total cost of the business, but also on the components that make up the business. Unit cost highlights operational efficiency and provides more information to measure and evaluate performance.

a. R/T/D unit cost goal is based on the total cost associated with the R/T/D process divided by the acquisition value of the property disposed via R/T/D.

b. Sales unit cost goal is based on all costs associated with the public sale of excess personal property divided by the net proceeds.

c. Ultimate Disposal unit cost goal is based on the non-contract costs associated with environmentally regulated disposal of hazardous waste divided by the number of pounds of hazardous waste disposed.

d. Abandonment and Destruction unit cost goal is based on the cost of either storing in a landfill or destruction of those non-hazardous items that remain at the end of the process divided by the number of line items of property disposed.

Costs are allocated using an Activity Based Costing (ABC) Model. DRMS continues to update and refine the ABC Model. DRMS earns its obligation authority through unit cost goals. The FY 1998 through FY 2000 goals and workload follow:

Table 1  
Unit Cost

	<u>FY 1998</u> <u>Goal/Workload</u>	<u>FY 1999</u> <u>Goal/Workload</u>	<u>FY 2000</u> <u>Goal/Workload</u>
R/T/D	\$0.01296/\$5,019.5	\$0.01777/\$3,570.5	\$0.01851/\$3,420.0
Sales	\$1.0125/\$161.6	\$1.0053/\$149.8	\$0.5632/\$267.0
Ultimate Disposal	\$0.185/266.6	\$0.182/247.1	\$0.202/221.8
Abandonment and Destruction	\$241.54/0.026	\$295.37/0.018	\$294.81/0.018

NET OPERATING RESULT (NOR)/ACCUMULATED OPERATING RESULT (AOR):

The NOR measures the short range, single fiscal year, impact of revenue and expenses incurred by the business. For example, a positive annual NOR demonstrates that revenues exceeded expenses for the business activity, a negative NOR--just the opposite.

The AOR reflects the long term, multi-year results of previous NORs. Its measurement describes the accumulated effects of NORs and demonstrates the fiscal strength over a longer time. The goal is to break even by FY 2001. Table 2 reflects NOR/AOR impacts for FY 1998 through FY 2000.

Table 2  
NOR/AOR  
(\$ in Millions)

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Revenue	589.7	326.8	356.2
Expenses	357.5	348.2	353.0
NOR	232.1	( 21.4)	3.2
Prior year AOR	(213.9)	18.2	(3.2)
AOR	18.2	(3.2)	0.0

MILITARY AND CIVILIAN PERSONNEL:

Reductions in employment levels, without degradation of mission support, are achieved primarily by two factors: automation and management improvements. Automating our reutilization and marketing processes and management information systems reduces the need for manual intervention. Management improvements such as reorganizing, reengineering processes, and realigning workloads, are general means to further productivity. Table 3 identifies budget estimates for full-time equivalents and end strength.

Table 3  
Military and Civilian Personnel

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
End Strength			
Military	14	28	19
Civilian	3,022	2,613	1,942
Total			
Full-time Equivalents			
Military	14	28	19
Civilian	3,269	2,830	2,284
Total			

CAPITAL EXPENDITURES:

DRMS monitors the condition of facilities and equipment at more than 95 DRMOs in order to maintain a safe and healthy workplace in accordance with stringent environmental and safety and health regulations. Minor Construction projects are for storage facilities to properly handle hazardous materials, hazardous waste, and items requiring demilitarization. Table 4 depicts the capital program budget authority for FY 1998 through FY 2000.

Table 4  
Capital Program Budget Authority  
(\$ in Millions)

	<u>FY 1998</u>	<u>FY 1999</u>	<u>FY 2000</u>
Non-ADP Equipment	\$ 1.6	\$ 1.5	\$ 1.4
ADP Equipment	1.4	0.0	1.2
Software Development	1.7	4.4	0.0
Minor Construction	7.4	8.0	10.9
Total	\$12.2	\$13.9	\$13.5

**Defense-Wide Working Capital Fund  
Defense Logistics Agency  
Defense Reutilization and Marketing Service  
Revenue and Expenses  
February 1999  
(\$ in Millions)**

	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>
<b>Revenue:</b>			
Gross Sales			
Operations	589.7	326.8	356.2
Capital Surcharge	0.0	0.0	0.0
Depreciation excluding Major Construction			
Major Construction Depreciation			
Other Income			
Refunds/Discounts (-)			
Total Income:	589.7	326.8	356.2
<b>Expenses:</b>			
Cost of Material Sold from Inventory			
Negotiated Purchases from Customers			
Salaries and Wages:			
Military Personnel Compensation & Benefits	1.8	1.6	1.2
Civilian Personnel Compensation & Benefits	137.0	137.7	118.4
Travel & Transportation of Personnel	6.9	6.5	5.2
Materials & Supplies (For Internal Operations)	1.1	3.8	3.1
Equipment	12.3	9.2	13.1
Other Purchases from Revolving Funds	25.1	25.4	28.7
Transportation of Things	11.0	6.2	10.9
Depreciation - Capital	9.0	7.7	9.4
Printing and Reproduction	3.1	2.2	1.1
Advisory and Assistance Services	1.3	0.3	0.3
Rent, Communication, Utilities & Misc. Charges	7.5	5.2	4.5
Other Purchased Services	141.4	142.5	157.0
Total Expenses	357.5	348.2	353.0
Net Operating Result	232.1	(21.4)	3.2
Other Changes Affecting AOR (Prior Year AOR)	(213.9)	18.2	(3.2)
Accumulated Operating Result	18.2	(3.2)	0.0
Non-Recoverable Adjustment Impacting AOR	0.0	0.0	0.0
Accumulated Operating Result for Budget Purposes	18.2	(3.2)	0.0

**Activity Group Analysis**  
**Defense Logistics Agency**  
**Defense Reutilization and Marketing Service**  
**Source of New Orders and Revenue**  
**February 1999**  
**(\$ in Millions)**

	<b>FY 1998</b>	<b>FY 1999</b>	<b>FY 2000</b>
<b>1. New Orders</b>			
<b>a. Orders from DoD Components</b>	426.0	175.1	87.5
<b>Army</b>	104.0	53.3	28.6
<b>Navy</b>	110.4	51.0	27.9
<b>Air Force</b>	102.1	36.7	16.1
<b>Marine Corps</b>			
<b>Other</b>	109.5	34.1	14.9
<b>b. Orders from Other Fund Activity Groups</b>			
<b>c. Total DoD</b>	426.0	175.1	87.5
<b>d. Other Orders:</b>	2.1	1.9	1.7
<b>Other Federal Agencies</b>	1.1	1.0	0.9
<b>Trust Fund</b>			
<b>Non Federal Agencies</b>			
<b>Foreign Military Sales</b>	1.0	0.9	0.8
<b>Total New Orders</b>	428.1	177.0	89.2
<b>2. Carry-In Orders</b>			
<b>3. Total Gross Orders</b>	428.1	177.0	89.2
<b>4. Sales Proceeds</b>	161.6	149.8	267.0 *
<b>5. Total Gross Sales</b>	589.7	326.8	356.2

\* Includes revenue from Defense National Stockpile Center.

**Changes in the Costs of Operation  
Defense Logistics Agency  
Defense Reutilization and Marketing Service  
February 1999  
(Dollars in Millions)**

	<b>EXPENSES</b>
FY 1998 Actual	357.5
FY 1999 Estimate in President's Budget	350.0
Estimated Impact in FY 1999 of Actual FY 1998 Experience:	
Pricing Adjustments:	7.2
Labor	4.5
Non-Labor	2.6
Program Changes:	
Civilian Personnel	-3.9
Military	-0.3
Travel of Persons	-0.5
Supplies	2.7
Commercial Equipment Purchases	-3.3
Facility Maintenance	1.8
DISA Processing	0.6
DISA Communications	2.4
DSDC	-7.3
DFAS	2.4
Distribution Depots	0.6
Transportation	-4.9
Depreciation	-1.3
Foreign National Indirect Hires	0.9
SLUC/Other Rents/Postage/Printing	-0.6
Local Communications	-2.9
Hazardous Contracts	2.9
Other Purchased Services	-6.0
Subtotal	-16.5
FY 1999 Current Estimate	348.2

**Changes in the Costs of Operation  
Defense Logistics Agency  
Defense Reutilization and Marketing Service  
February 1999  
(Dollars in Millions)**

	<b>EXPENSES</b>
FY 1999 Estimate	348.2
Pricing Adjustments:	8.5
Labor	5.5
Non-Labor	3.0
Program Changes:	
Civilian Personnel	-24.7
Military	-0.4
Travel of Persons	-1.4
Supplies	-0.8
Commercial Equipment Purchases	3.8
Facility Maintenance	-0.1
DISA Processing	-0.9
DSDC	-0.8
DISA Communications	-0.4
DFAS	0.1
Distribution Depots	5.2
Transportation	4.6
Depreciation	1.7
Foreign National Indirect Hires	-1.8
SLUC/Other Rents/Postage/Printing	-2.0
Local Communications	0.1
Hazardous Contracts	3.9
Other Purchased Services	10.3
Subtotal	-3.8
FY 2000 Estimate	353.0